

FAX MESSAGE

To: Mr. David Darling  
Bank Austria, New York City

From: Robert Hart  
Date: 3/21/96

Dear David:

I refer to your letter of February 29th expressing your interest in the comprehensive Export Vendor Financing Program we are developing to meet the needs of a select group of Silicon Valley electronics and telecommunications companies.

I would like to address the following points raised in your letter, 1) the origination side of the business and how the marketing staff of the exporter will be trained to present the financing packages and 2) the operational aspects of approving and documenting individual credits using the integrated export finance management systems developed by EFS.

Background

We are developing this program with Technology Credit Corporation (TCC), San Jose, which was founded in early 1988 and is in the business of operating, managing and funding its clients' domestic customers financing facilities on behalf of its vendor clients.

TCC operates in the name of its vendor clients, typically has its own personnel residing on site, and helps its clients' salespeople structure the most flexible and cost effective means to acquire high technology content equipment. The equipment is generally telecommunications or computer related but a growing segment of financeable deals (and clients) are software companies which assess large initial licensing fees. These software clients provide "mission critical" applications which are essential to the ongoing operations of the end user.

TCC has come to realize that more and more of their customer's business is export driven, and that they do not have the expertise to coordinate and administer an international finance program. TCC views the capability of providing medium term export financing as a logical outgrowth of the current domestic relationships and crucial to their clients' expanding international sales efforts.

The main principals of TCC are Larry Clark and Jim Hardigan who came from Rolm, a billion dollar manufacturer of telephone equipment which was sold to IBM. Messrs. Clark and Hardigan started Rolm's captive leasing company, Rolm Credit Corporation.

They financed \$400 million in Rolm telephone switches under the Rolm Credit Corporation operation which became a subsidiary of IBM Credit Corporation.

By virtue of their business relationships within Silicon Valley, they have been able to serve through TCC, a growing number of manufacturers of high technology related equipment in much the same way they did at Rolm.

#### International Opportunities

TCC advises that the focus of their clients' new marketing efforts have turned to the emerging markets of Latin America, Asia and the Eastern Bloc. The transactions are typically five years in term and are less than \$10 million which falls within the parameters of Eximbank's Medium Term Insurance Program.

TCC's discussions with their clients and a review of their annual reports indicate that a significant and growing portion of their clients' business is international. The table below sets out the portion of the business that is international in nature compared to the domestic component for selected clients. These clients are all public companies such as Cisco Systems, Inc. (routers) and PeopleSoft, Inc. (Software). These products aggregate to \$500,000 to \$10,000,000 and are sold to major industrial, financial and governmental entities. Coupled with the typical double digit growth in sales for its client companies, TCC anticipates that the percentage of total revenues generated from international business will continue to show large increases.

<u>Type of Equipment</u>	<u>Domestic</u>	<u>International</u>	<u>Total Sales</u>
Duplication Equipment	80,000,000	20,000,000	100,000,000
Routers	1,718,000,000	218,000,000	1,936,000,000
Hubs	595,700,000	699,300,000	1,295,000,000
Multiplexers	225,000,000	75,000,000	300,000,000
Software	170,000,000	35,000,000	205,000,000
Access Products	45,000,000	15,000,000	60,000,000
Voicemail	60,000,000	20,000,000	80,000,000
Total:	<u>\$2,893,700,000</u>	<u>\$1,082,300,000</u>	<u>\$3,976,000,000</u>

In addition, TCC advises they have significant potential clients which they could serve if they had a comprehensive Export Vendor Financing Program in place. These prospects have 70% of sales devoted to international business, and their customers are especially concentrated in emerging markets. With a proven medium term vendor export financing product, they are confident they could expand their current client base in this area.

#### Marketing/Sales Training

One of TCC's competitive advantages is the close association it has with their vendor clients. TCC with its people on site, interacts with the client's sales force on an every day/every hour basis, meets with management and works with the credit and finance side of the business on a regular basis.

TCC provides continuity of operations within the client's vendor financing program. TCC people act in the name of the client and are trained in the operations of vendor financing which overcomes the problem of client employee turnover. TCC is therefore able to administer its customer financing program more effectively over time in a paperwork intensive business than such a program could be administered by the clients themselves.

TCC anticipates that this would be especially true for the export credit insurance based international financing that also requires considerable attention to paperwork detail and intensive documentation with the added complexity of export credit insurance.

EFS began discussions with TCC because we mutually saw the advantages of a joint relationship. TCC has already developed a close working relationship with the manufacturers, and EFS has the expertise and systems capability to administer an export finance program.

EFS will develop marketing materials and operational manuals for the Export Vendor Financing Program, and train TCC and vendor personnel in their use. Attached are several slides developed by EFS during initial discussions with TCC which detail each of our responsibilities. Slides 1-4 detail our respective responsibilities during the various stages of marketing, qualifying transactions, sale negotiations and commitment of financing.

#### Operations and Funding

Slides 5 & 6 detail TCC and EFS' responsibilities for implementing and administering the various documentary, insurance and operational aspects of a medium term transaction. The Computerized Export Finance System developed by EFS which is being adapted for medium term transactions is crucial to controlling the flow of documentation from vendor clients, foreign buyers and other parties, monitoring the terms and conditions of export credit insurance policies, and coordination of the funding processes between the client companies and the financing bank.

We are now in the process of modifying our Computerized Export Finance System for handling the specific requirements of medium term Eximbank insured transactions. Attached are copies of several Operational System Review slides of the basic program, ie:

- EFS's Primary Operational Objectives
- Systems Design
- Operational Flows
- Credit Controls Built into EFS's System
- Sample of EFS's Reports
- Marketing Issues
- Benefits of Joint Program
- Organizational Information Structure

We are in the process of developing an Operations Manual which details the entire marketing, operational and funding processes including all the required documentation for the Eximbank insured medium term Export Vendor Financing Program. Also, this Operational Manual will support EFS's Computerized Export Finance System.

We will keep you advised concerning development of the Operations Manual and the revised Computerized Export Finance System for medium term financing. Also, we would appreciate your comments, and look forward to discussing this Export Vendor Financing Program with you in greater depth.

We believe that the combination of TCC and EFS, coupled with the funding capability of Bank Austria, represents a significant opportunity to build a very attractive business around financing the export sales of this fast growing electronic and telecommunications market.

# Operational Systems Review

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## EFS's Primary Operational Objectives

- Provide efficient delivery of export financing and receivable administration services to exporters.
- Organize export finance documentation to meet credit insurer's policy mandates.
- Provide instant access to documentation through electronic imaging and computerized document management systems.
- Create an extensive exporter/buyer/documentation database for marketing, administration and management information purposes.



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# Operational Systems Review

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## Systems Design

- EFS has developed a prototype integrated Windows-based PC system to provide comprehensive export finance administrative services to fill the needs of:
  - Exporters
  - Commercial Lenders
  - Insurers
  - Freight forwarders
- The system is designed around multiple integrated data files:
  - Exporter Information
  - Foreign Buyer Information
  - Insurance Policy Information
  - Buyer Purchase Orders
  - Shipment Information and Documentation Capture
  - Invoice Information
  - Financing Requests
  - A/R Tracking and Remittances
  - Claims information



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# Operational Systems Review

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## Operational Flows

**System uses modules to process information supplied by exporters:**

- Prequalification of exporter and foreign buyers.
- Creation of application to insurer.
- Upon issuance of insurance, set-up exporter's credit limit, foreign buyer sub-limits and other policy parameters.
- Exporter enters preliminary buyer orders which will be tested against controls and limits established by EFS.
- Shipment information is entered by exporter and confirmed by EFS against archived shipping documents.
- Final invoice information is entered.
- Exporter requests financing by invoice, EFS verifies invoices are eligible for financing.
- EFS tracks all foreign receivables through collection.



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# Operational Systems Review

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## Credit Controls Built into EFS's System:

- Exporters and buyers are pre-qualified.
- All orders/invoices are tested against credit limits and other terms of policy for financing eligibility.
- EFS calculates and pays premiums to insurer.
- EFS provides reports to Bank and insurers.
- EFS captures, archives and verifies relevant shipping documents.
- EFS tracks aging and collection of receivables.
- EFS sets up early warning system to identify problems, meet reporting and other policy requirements.
- EFS responsible for claims administration process.



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# Operational Systems Review

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## Sample of EFS Reports

- Application Tracking Report
- Exporter Credit Limit and Terms of Financing
- Policy Information Report
  - Policy Aggregate Limit
  - Foreign Buyer Sub-Limits
  - Country Limits, if applicable
  - Other Terms of Policy
- Document Checklist
- Funding Checklist
- Funding Requirement Status Report
- Eligible Shipment/Invoice List
- Shipment Report
- Premium Payment Report
- Accounts Receivable Aging
- Cash Applications Report
- Past Due Report
- Notice of Buyer Suspension
- Notice of Buyer Termination
- Claim Filing Checklist



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## **Marketing Issues**

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- **EFS's export credit services will be focused on exporters who are producers and wholesalers of high value-added products, such as:**
  - **Electronic products**
  - **Computer equipment**
  - **Telecommunications equipment**
  - **Medical instrumentation**
  - **Measuring devices**
  - **Environmental equipment**
  - **Transportation equipment**
  - **Various industrial products and parts**



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## **Marketing Issues**

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- **These exporters generally have high gross profit margins and can significantly benefit from utilizing EFS's export credit services.**
- **EFS will work with its strategic partners to develop a standardized prospective exporter profile defining minimum financing criteria.**
- **EFS will work with its strategic partners to coordinate joint marketing efforts.**
- **EFS will work with its strategic partners to implement more efficient export systems utilizing technology.**



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# Benefits of Joint Program

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- Enable strategic partners to offer expanded trade finance to new and existing customers without need to add infrastructure, marketing and operational personnel.
- EFS's comprehensive systems will assure lenders that financed export receivables are covered by credit insurance should a claim arise.
- Begin initial phase in California with a limited number of exporters using EFS's prototype computer system currently under development.
- Complete develop of comprehensive system using knowledge gained from the initial phase with input from exporters and strategic partners.



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# Organizational Information Structure

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